



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

SUMMARY OF THE MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

HELD ON
Monday, November 16, 2009
2:30 p.m.

The Investment Committee (IC) of the Arizona State Retirement System (ASRS) met at 3300 N. Central Avenue, 14th Floor Conference Room, Phoenix, Arizona 85012. Mr. Tom Connelly, Chair of the IC, called the meeting to order at 2:31 p.m., Arizona time.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Thomas Connelly, Chair
Mr. Christopher Harris, Vice-chair
Mr. Lawrence Trachtenberg

Excused: Mr. Jim McLaughlin

A quorum was present.

Mr. Dave Byers, Chairman of the Board was also present.

2. Approval of the Minutes of the October 13, 2009, Regular Session IC Meeting

Motion: Mr. Chris Harris moved the minutes of the October 13, 2009, Regular Session IC meeting be adopted as presented. Mr. Larry Trachtenberg seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

3. Presentation, Discussion, and Appropriate Action Regarding the IMD Investment House Views

Mr. Gary Dokes, Chief Investment Officer, introduced the topic and provided the IC with a verbal update of the Investment Management Division's (IMD) current Investment House Views. Recent changes include: fund rebalancing and the reallocation of \$200M from U.S. Equity (MidCap) to non-U.S. equity (MSCI ACWI ex-U.S.), the reduction of fixed income conviction level from high to medium and the changes made to the Private Equity section of the IMD Investment House Views.

Mr. Dave Underwood, Equity Portfolio Manager, discussed the equity market and Mr. Al Alaimo, Fixed Income Portfolio manager discussed the fixed income market.

4. Presentation, Discussion, and Appropriate Action Regarding ASRS Sudan and Iran Divestiture List and Reporting

Mr. Dokes introduced the topic. During the 2008 legislative session, two bills were passed requiring the ASRS to identify companies meeting certain criteria for operations in Sudan and Iran, and would potentially have to divest, or refrain from purchasing their securities. As a result, the ASRS contracted with RiskMetrics Group to implement the requirements that resulted from the divestment bills.

Mr. Michael Gray, Director of Global Market Development from RiskMetrics Group (RMG) discussed companies that have been included on the Divestiture List and provided the IC with a brief overview of RMG's findings. Ms. Jan Fedder-Degges, ESG Project Manager, answered questions from Mr. Dokes regarding the use of reports from non-government organizations and other forms of information to find out if a company has ties to Iran and Sudan. Ms. Fedder-Degges stated the list has changed about 10 – 20% over the last five years. In response to Mr. Chris Harris' question about the cost of RMG's services, the ASRS spends approximately \$60-65,000 per year for this service.

5. Presentation, Discussion, and Appropriate Action Regarding Proxy Voting

Mr. Marc Goldstein, Head of Research Engagement, RiskMetrics Group discussed proxy voting. Mr. Goldstein spoke about plurality voting and possible changes in 2010 regarding an end to discretionary broker voting for director elections, continued focus on compensation, proxy access, new SEC disclosure rules, and new shareholder proposals on CEO succession.

6. Presentation, Discussion, and Appropriate Action Regarding Post Mortem of the Director's Due Diligence Trip to NEPC and State Street and CIO's Trip to National Association of State Investment Officers (NASIO)

Mr. Paul Matson, Director, and Mr. Dokes provided the IC with brief overviews of their recent trips. Mr. Matson attended an NEPC Client Forum and conducted an on-site review of NEPC's operations. Mr. Matson discussed a variety of topics with NEPC, as well as participated in a client/consultant exchange between NEPC and their clients. In addition, Mr. Matson conducted a due diligence of State Street. Mr. Matson stated that he was impressed with the breadth of capabilities available with NEPC.

Mr. Dokes attended the annual NASIO conference. He networked with CIOs and discussed cash flow concerns and how there are differences in efficiencies amongst the pension funds, as well as vulnerability of defined benefit plans, cash flow concerns, public vs. private market debates, and compensation plans.

7. Presentation, Discussion, and Appropriate Action Regarding the ASRS' Direct Investment Statute Limitation

Mr. Dokes, Mr. Matson and Mr. Tom McClory, Assistant Attorney General, provided the IC with information regarding the ASRS' Direct Investment Statute Limitation and its applicability to the management of ASRS investments. Staff has been reviewing A.R.S. § 38-719(F) which pertains to ASRS direct investments and the requirements that such investments do not exceed 50% of ASRS total assets. Currently direct investments represent approximately 41% of ASRS assets.

8. Presentation, Discussion, and Appropriate Action Regarding the ASRS' Bankruptcy Collection Procedures and Status

Mr. Matson, Mr. Dokes and Mr. McClory advised the IC of the ASRS procedures regarding the pursuit of claims and collection of losses if bankruptcy is filed in any financial holding of the ASRS. There are instances when the ASRS may incur a loss that is recoverable, in whole or in part, through the bankruptcy courts. ASRS staff is meeting with representatives of the Attorney General's office to devise a plan to continue bankruptcy claims and collections on a more structured basis. ENRON and WORLDCOM are examples of past cases the Attorney General have obtained recoveries in on behalf of the ASRS.

9. Presentation, Discussion, and Appropriate Action Regarding the ASRS' Private Equity Program Return and Total Fund Reporting

Mr. Allan Martin, Partner, NEPC was present to discuss the Private Equity Program Return and Total Fund reporting. Private equity returns have not been included in the ASRS Total Fund returns. The impact is not expected to be material and is estimated to be less than approximately 0.1% for the one year period ending December 31, 2008. NEPC will start reporting the Private Equity returns on ASRS' Total Fund beginning in the 4th quarter, 2009. NEPC will obtain the private equity data and also review each asset class to ensure that all asset classes are included in Total Fund performance.

10. Presentation, Discussion, and Appropriate Action Regarding Director's Asset Class Committee Update

Mr. Dokes provided the IC with an update regarding the activities that have occurred and are anticipated to occur with regards to the ASRS Private Equity Committee (PEC), Real Estate Committee (REC), Opportunistic Investment Committee (OIC) and Public Equity/Fixed Income Markets Committee (PMC).

11. Future Agenda Items

None.

12. Call to the Public

No members of the public requested to speak to the IC.

The meeting adjourned at 4:59 p.m.

Respectfully submitted,

Andriana Valentino, Secretary Date

Gary R. Dokes, Chief Investment Officer Date